

## INTRODUCTION: Federal Fiscal Operations

*Budget authority* usually takes the form of appropriations that allow *obligations* to be incurred and payments to be made. Reappropriations are Congressional actions that extend the availability of unobligated amounts that have expired or would otherwise expire. These are counted as new budget authority in the fiscal year of the legislation in which the reappropriation act is included, regardless of when the amounts were originally appropriated or when they would otherwise lapse.

Obligations generally are liquidated by the issuance of checks or the disbursement of cash--*outlays*. Obligations may also be liquidated (and outlays recorded) by the accrual of interest on public issues of Treasury debt securities (including an increase in redemption value of bonds outstanding); or by the issuance of bonds, debentures, notes, monetary credits, or electronic payments.

Refunds of collections generally are treated as reductions of collections, whereas payments for earned-income tax credits in excess of tax liabilities are treated as outlays. Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior year budget authority and from budget authority provided for the year in which the money is spent. Total outlays include both budget and off-budget outlays and are stated net of offsetting collections.

*Receipts* are reported in the tables as either budget receipts or offsetting collections. They are collections from the public, excluding receipts offset against outlays. These, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve system. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections from other Government accounts or the public are of a business-type or market-oriented nature. They are classified as either collections credited to appropriations or fund accounts, or offsetting receipts (i.e., amounts deposited in receipt accounts). The former normally can be used without appropriation act by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations, and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without appropriation. They are subdivided into two categories: (1) proprietary receipts, or collections from the public, offset against outlays by agency and by function, and (2) intra-governmental funds, or payments into receipt accounts from governmental appropriation or fund accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts.

*Intrabudgetary transactions* are subdivided into three categories: (1) interfund transactions--payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions--payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions--payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, subfunction, or agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by *off-budget Federal entities*) as employers into employees' retirement funds; (2) interest received by trust funds; (3) rents and royalties on the Outer Continental Shelf lands; and (4) other interest (i.e., that collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

The Government has used the unified budget concept as a foundation for its budgetary analysis and presentation since 1969. The concept calls for the budget to include all of the Government's fiscal transactions with the public. Since 1971, however, various laws have been enacted removing several Federal entities from (or creating them outside of) the budget. Other laws have moved certain off-budget Federal entities onto the budget. Under current law, the off-budget Federal entities consist of the two Social Security trust funds, Federal old-age and survivors insurance, and Federal disability insurance.

Although an off-budget Federal entity's receipts, outlays, and surplus or deficit ordinarily are not subject to targets set by the congressional resolution, the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act) included off-budget surplus or deficit in calculating deficit targets under that act and in calculating excess deficit. Partly for this reason, attention has focused on both on- and off-budget receipts, outlays, and deficit of the Government.

Tables **FFO-1**, **FFO-2**, and **FFO-3** are published quarterly and cover 5 years of data, estimates for 2 years, detail for 13 months, and fiscal year-to-date data. They provide a summary of data relating to Federal fiscal operations reported by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. They also detail accounting transactions affecting receipts and outlays of the Government and off-budget Federal entities and their related effect on assets and liabilities of the Government. Data are derived from the "Monthly Treasury Statement of Receipts and Outlays of the United States Government."

- Table **FFO-1** summarizes the amount of total receipts, outlays, and surplus or deficit, as well as transactions in Federal securities, monetary assets, and balances in Treasury operating cash.

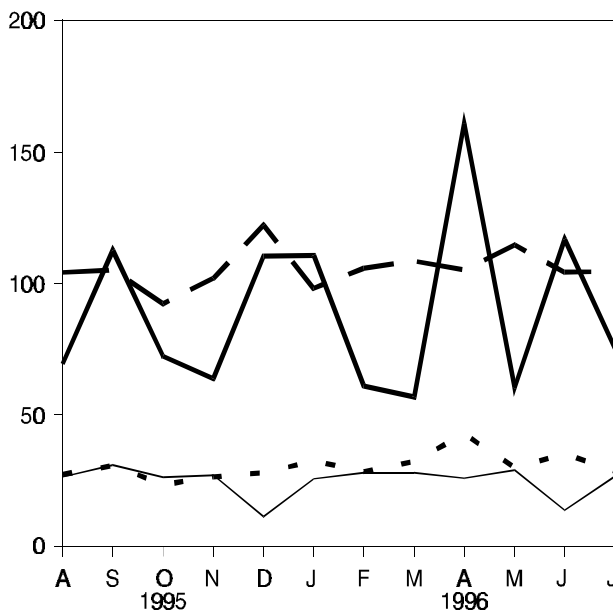
• Table **FFO-2** includes on- and off-budget receipts by source. Amounts represent income taxes, social insurance taxes, net contributions for other insurance and retirement, excise taxes, estate and gift taxes, customs duties, and net miscellaneous receipts.

• Table **FFO-3** details on- and off-budget outlays by agency.

• Table **FFO-4** (revised from March issue) summarizes internal revenue collections by States and other areas and by type of tax. Amounts reported are collections made in a fiscal year. They span several tax liability years because they consist of prepayments (i.e., estimated tax payments and taxes withheld by employers for individual income and Social Security taxes), of payments made with tax returns, and of subsequent payments made after tax returns are due or are filed (i.e.,

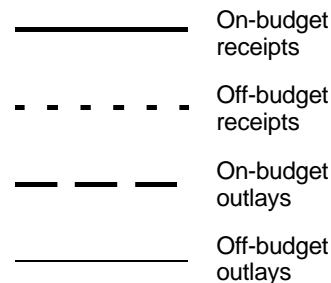
payments with delinquent returns or on delinquent accounts). During the preparation of Table FFO-4, incorrect figures were inadvertently imported into the Unemployment Insurance and Estate and Gift columns. Revisions resulted in a change to the State distribution only.

It is important to note that these data do not necessarily reflect the Federal tax burden of individual States. Amounts are reported based on the primary filing address provided by each taxpayer or reporting entity. For multistate corporations, the address may reflect only the State where such a corporation reported its taxes from a principal office rather than other States where income was earned or where individual income and Social Security taxes were withheld. In addition, an individual may reside in one State and work in another.



**CHART FFO-A.--**  
**Monthly Receipts and Outlays**

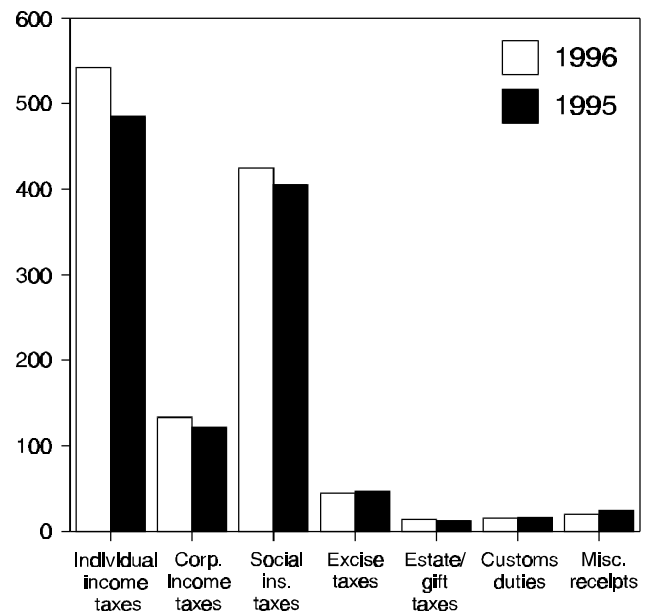
(In billions of dollars)



**CHART FFO-B.-- Budget**  
**Receipts by Source,**  
**through Third Quarter,**  
**Fiscal Years 1995-1996**

(In billions of dollars)

Source: "Monthly Treasury Statement of Receipts and Outlays of the United States Government"



## Summary of Budget Results for the Third Quarter, Fiscal 1996

There was marked improvement in the Federal budget balance in the third quarter, which was in surplus by \$53.2 billion, more than double the surplus registered in the corresponding quarter of fiscal 1995. The favorable showing held the deficit for the first three quarters of the current fiscal year to \$75 billion, down from \$123.7 billion a year earlier. For the entire fiscal 1996, the deficit is now projected to narrow to \$116.8 billion from \$163.9 billion in fiscal 1995, based on revised estimates contained in the "Mid-Session Review of the Fiscal 1997 Budget" released in July.

Budget results are typically favorable in the third fiscal quarter, which contains both individual and corporate final settlements on tax liability for the prior calendar year and also quarterly payments on estimated liability for the current year. The surplus in the third quarter of fiscal 1996 was the largest in dollar terms for any quarter on record and reflected the combination of a sizable, 10.3 percent increase in revenues and a narrow rise in outlays of 3 percent, or only 2.1 percent if the deposit insurance account is excluded.

Leading the overall increase in revenues in the quarter was a rise of 21.5 percent in nonwithheld individual income and employment taxes. This reflected the very large revenue flow around this year's April 15 filing date and also strong quarterly payments in June on estimated tax liability for calendar 1996. At the same time, individual tax refunds (treated as negative revenues in budget accounting) were slightly lower than a year earlier when a large volume of refund payments had been delayed from the second to the third quarter by extra precautions taken by the Internal Revenue Service to combat fraud. Withheld income and employment taxes were up by a solid 7.1 percent, which was about 1 percentage point faster than the increase in the wage and salary tax base, as carried in the national income and product accounts.

Corporate income tax revenues were up much more modestly. The increase from a year earlier of 4.7 percent lagged well behind gains of recent quarters, perhaps indicating that the phase of rapid growth of corporate profits during the current economic expansion is behind us. There were declines in customs duty receipts and in Federal Reserve remittances to the Treasury, the latter reflecting among other things a slight decline in the effective interest rate on Treasury securities, very little change in Federal Reserve holdings of those securities, and the effect of currency realignments.

The modest increase in total outlays in the third quarter from the prior year reflected generally narrow increases in spending for basic Government functions and for most "safety-net" programs. Net interest outlays were up by a moderate 1.5 percent, as a decline in the effective interest rate on the publicly held debt offset a 3-3/4 percent increase in that debt. Running counter to recent trends, defense spending rose by 2.6 percent

### Total On- and Off-Budget Results and Financing of the U.S. Government

[In millions of dollars]

|  | April-June | Actual fiscal year to date |
|--|------------|----------------------------|
| Total on- and off-budget results:        |            |                            |
| Total receipts .....                     | 445,349    | 1,090,504                  |
| On-budget receipts .....                 | 337,598    | 811,976                    |
| Off-budget receipts .....                | 107,752    | 278,528                    |
| Total outlays .....                      | 392,153    | 1,165,526                  |
| On-budget outlays .....                  | 323,777    | 951,581                    |
| Off-budget outlays .....                 | 68,376     | 213,945                    |
| Total surplus or deficit (-) .....       | 53,196     | -75,022                    |
| On-budget surplus or deficit (-) .....   | 13,820     | -139,605                   |
| Off-budget surplus or deficit (-) .....  | 39,376     | 64,583                     |
| Means of financing:                      |            |                            |
| Borrowing from the public .....          | -23,452    | 90,347                     |
| Reduction of operating cash .....        | -16,159    | -84                        |
| Other means .....                        | -13,586    | -15,241                    |
| Total on- and off-budget financing ..... | -53,196    | 75,022                     |

from a year earlier, representing one of the few quarters recently of rising rather than declining outlays. Defense outlays are expected to tip downward again in coming quarters, but not at the rapid pace of recent years, which witnessed a fall in inflation-adjusted defense spending at a rate of better than 5 percent a year. The biggest part of that decline has been in the procurement account, which was accompanied by sharp cutbacks in employment in industries producing defense goods. The pattern of orders placed with producers of defense goods, as well as budget projections, suggests a bottoming out of procurement spending.

The deficit of \$75 billion for the first 9 months of this year represented an improvement of nearly \$49 billion from a year earlier. The deficit for the period was artificially reduced by \$7 to \$8 billion by the unusual timing of some outlays. In terms of comparisons with a year earlier, however, that was largely offset by a swing in the deposit insurance account. Most analysts exclude that account in looking at underlying budget trends. Adjusting for the unusual timing of spending and excluding the deposit insurance account, the deficit was roughly \$90 billion in the 9-month period, also off by about \$49 billion from a year earlier.

That brings the "Mid-Session Review" projection of a \$116.8 billion deficit in fiscal 1996 well within target. The figure would represent a reduction of \$47 billion from the deficit for all of fiscal 1995 and would represent 1.6 percent of the Nation's GDP, the smallest share since fiscal 1974. The deficit is projected to widen slightly in dollar terms in fiscal 1997, with much of that due to a return to normal timing of outlays. (The unusual timing of outlays that affected the figures for the first 9 months of the current fiscal year also artificially reduces outlays and the deficit for the entire fiscal year.) Based on Administration budget initiatives and the assumption that the economy remains at relatively full employment, the deficit is projected to narrow steadily in the years that follow and to shift into surplus by fiscal 2001.

[Note: Because of budget constraints, the article summarizing quarterly budget results will not appear in future issues of the "Treasury Bulletin".]

## Second-Quarter Receipts

The following capsule analysis of budget receipts, by source, for the second quarter of fiscal 1996 supplements fiscal data reported in the June issue of the "Treasury Bulletin." At the time of that issue's release, not enough data were available to analyze adequately collections for the quarter.

**Individual income taxes**—Individual income tax receipts were \$149.0 billion for the second quarter of fiscal 1996, an increase of \$9.2 billion over the comparable quarter for fiscal 1995. Withheld receipts increased by \$9.3 billion and non-withheld receipts increased by \$4.8 billion during this period. Refunds increased by \$4.9 billion over the comparable fiscal 1995 quarter. There was an increase of \$3.1 billion in accounting adjustments between individual income tax receipts and the Social Security and Medicare trust funds over the comparable quarter in fiscal 1995.

**Corporate income taxes**—Net corporate receipts for the second quarter totaled \$22.3 billion, \$2.1 billion higher than those for the comparable quarter of fiscal 1995. The \$2.1 billion figure consists of \$1.8 billion in higher estimated and final payments plus \$0.3 billion in lower refunds. The increase in net receipts mainly reflects higher corporate profits.

**Employment taxes and contributions**—Employment taxes and contributions receipts for the second quarter were \$117.8 billion, an increase of \$4.5 billion over the comparable prior year quarter. Receipts to the Old-Age Survivors Insurance, Disability Insurance, and Hospital Insurance trust funds increased by \$3.0 billion, \$0.6 billion, and \$1.0 billion, respectively. There was a -\$1 billion accounting adjustment for prior years' employment tax liabilities made in the second quarter of fiscal 1995, while there was a -\$4.1 billion adjustment made in the second quarter of fiscal 1996.

**Contributions for other insurance and retirement**—Contributions for other retirement were \$1.2 billion for the second

quarter. There was a negligible increase over receipts from the second quarter of fiscal 1995. The growth in contributions will remain flat over the next few years as the number of employees covered by the Federal employees' retirement system (FERS) grows slowly relative to those covered under the civil service retirement system (CSRS).

**Unemployment insurance**—Unemployment insurance receipts for the second quarter were \$3.9 billion, \$0.1 billion less than for the comparable quarter of fiscal 1995. State taxes deposited in the U.S. Treasury increased by \$0.04 billion, and Federal Unemployment Tax Act (FUTA) receipts decreased by \$0.16 billion. Railroad unemployment tax receipts were unchanged from the comparable quarter of fiscal 1995.

**Excise taxes**—Net excise tax receipts for the second quarter were \$12.7 billion, a decrease of \$0.5 billion over the comparable prior year quarter. Total excise tax refunds for the quarter were \$0.2 billion, a decrease of \$0.4 billion over the comparable prior year quarter.

**Estate and gift taxes**—Estate and gift tax receipts were \$3.6 billion for the second quarter. These receipts represent a decrease of \$0.4 billion over the previous quarter, as well as an increase of \$0.3 billion over the same quarter in 1995.

**Customs duties**—Customs receipts net of refunds were \$4.5 billion for the second quarter. This is approximately equal to the customs duties received in the Treasury from the comparable prior year quarter.

**Miscellaneous receipts**—Net miscellaneous receipts for the second quarter were \$6.3 billion, a decrease of \$1.2 billion over the comparable prior year quarter. Deposits of earnings by Federal Reserve banks decreased by \$1.3 billion over the comparable prior year quarter. ◇

### Second Quarter Fiscal 1996 Net Budget Receipts, by Source

| [In billions of dollars]                                   |         |          |       |
|--|---------|----------|-------|
| Source   | January | February | March |
| Individual income taxes . . . . .                          | 86.2    | 40.3     | 22.5  |
| Corporate income taxes . . . . .                           | 5.2     | 1.7      | 15.5  |
| Employment taxes and contributions . . . . .               | 40.7    | 36.0     | 41.1  |
| Unemployment insurance . . . . .                           | 1.1     | 2.5      | 0.3   |
| Contributions for other insurance and retirement . . . . . | 0.4     | 0.4      | 0.4   |
| Excise taxes . . . . .                                     | 4.2     | 4.3      | 4.1   |
| Estate and gift taxes . . . . .                            | 1.3     | 1.1      | 1.2   |
| Customs duties . . . . .                                   | 1.5     | 1.5      | 1.5   |
| Miscellaneous receipts . . . . .                           | 2.1     | 2.5      | 1.6   |
| Total budget receipts . . . . .                            | 142.7   | 90.3     | 88.2  |